NERPO LIVESTOCK SYNDICATE SCHEME

‘LINKING LIVESTOCK EMERGING FARMERS TO THE RED MEAT VALUE CHAIN’

A PROJECT FUNDING PROPOSAL

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1. BACKGROUND & PROBLEM STATEMENT

1.1 Project Background

From 20 years of experience, NERPO has learnt that smallholder livestock farmers have limited access to mainstream commercial markets for reasons such as:

• small individual herds;
• poor productivity of the herds;
• limited entrepreneurial skills in the livestock business;
• poor cash flow to operate a livestock enterprise;
• limited access to development finance; and
• limited access to appropriate technical and market information.

Collectively these factors restrict the number of salable livestock that each farmer produces, the propensity to attract high value markets, the viability of their enterprises and hence income security and capacity to employ workers. Nationally it is said that smallholder farmers hold 5.4 million cattle. Their output is estimated at 15% of the herd (850,000 calves) but there is potential to step it up to 40% (2,100,000) per annum by improving the herd structure, productivity and off-take.

Smallholder farmers are said to contribute 5 – 10% to the formal meat market, whereas the actual figure should be closer to the 40% of the national cattle herd that they hold. Commericially-oriented farmers have an average herd of 60 cattle, producing an average of 16 calves for the market. If the herd structure is improved by increasing the proportion of cows and calving percentage and farm carrying capacity, the farms may possibly hold an average of 100 cows, with a yield of about 66 calves per annum, which would allow the farmers to break-even.

NERPO has demonstrated that the productivity of the smallholder farmers’ cows can equal that of cows in commercial herds (i.e. calving rate of 85%) with improved management. Such cows are more resilient to harsh conditions and inclement weather, and hence produce better than exotic breeds under stressful conditions.

1.2 Problem Statement

Most of the smallholder livestock production development initiatives have been disjoined and short term (<=2 years). They have thus not provided comprehensive support to farmers to enable them to fully participate in mainstream commercial markets on a sustainable basis. The assumption is that if smallholder livestock farmers are provided with comprehensive support and assisted to market in groups, they can sustainably participate in mainstream livestock markets, earn more income and sustain at least one employee.
Primary livestock production is not labour intensive. The biggest challenge is that many smallholder livestock enterprises do not break-even and so cannot sustain the farmer and workers on a minimum wage.

2. PROJECT CONCEPT & DEVELOPMENT

2.1 Project Concept

The intervention is to build the capacity of 2000 beef cattle farmers and 1000 small stock farmers, organised into 200 syndicates over a 2 year period (2018 - 2020) to attain sustainable production (minimum of 100 breeding cows and/or minimum of 600 ewes @85% calving/lambing), regularly supply high volumes of quality livestock to the market and enable them to become part owners in the livestock value chain. The intervention includes organising voluntarily participating farmers with at least 50 breeding cows into formal syndicates, establishing partnerships with feedlots and abattoirs through which the farmers will sell their livestock and ultimately own shares in or enter into custom feeding arrangement as well as own branded meat marketing schemes, as initial capacity building arrangement.

A comprehensive farmer capacity development programme involving formalisation of the syndicates into legal entities, training and mentorship in livestock entrepreneurship, financing the acquisition of extra breeding stock and required infrastructure, assisting farmers to build feed reserves and obtain veterinary requisites, providing market information and collective input and output market participation will be implemented over a five year period.

The performance of the farmers’ enterprises will be evaluated from growth in breeding herd size, calving percentage, market off-take rate and enterprise profitability. Which will be verified from an electronic centralised livestock data management system. The intervention is expected to yield 4150 jobs; ensure that the livestock enterprises of farmers are profitable and sustainable and farm workers are earning at least a minimum wage.
2.2 Project Development

After NERPO Project Development & Management Team had developed the project concept, it was presented to the National Executive Council (NEC) of NERPO for consideration and approval. The NEC approved the project concept under the following conditions:

1. Farmers shall participate in the scheme on a voluntary basis and through a syndicate group consisting of a minimum of 10 and maximum of 100 livestock farmers per syndicate;
2. Each participating farmer on a private land, in a syndicate of 10 members, shall offer a minimum of 20 (Twenty) cattle per year, so as to ensure that the Syndicate contributes a minimum of 200 (Two Hundred) cattle per year; and/or
3. With respect to farmers on communal land, in a syndicate of 20 members, shall contribute a minimum of 10 (Ten) cattle per year, so as to ensure that the Syndicate contributes a minimum of 200 (Two Hundred) cattle per year; and/or
4. A minimum of 60 (Sixty) sheep and/or goats per year, so as to ensure that the Syndicate contributes a minimum of 600 (Six Hundred) sheep or goats for sale per year.

5. The Livestock contributed by the Farmer and the Syndicate shall be sold by NERPO or its agent and the Farmer shall appoint NERPO or the said agent as its sole and exclusive agent for the marketing and sale of the Livestock.

6. At the point of sale, NERPO shall deduct from the selling price of the Livestock a 5 % (Five Percent) commission per animal sold, as well as any and all statutory levies payable as a result of such sale. The nett proceeds of the sale shall thereafter be paid by NERPO to the Farmer.

7. In the event of the Farmer failing to contribute the minimum Livestock as described above, NERPO shall be entitled to levy a penalty fee upon the Farmer of R250-00 (Two Hundred and Fifty Rand) per large stock or R85-000 (Eighty Five Rand) per small stock which should have been contributed by the Farmer for the particular year. Such penalty fees may be deducted by NERPO from the sale of any of the Farmer’s Livestock in terms of this Agreement.

8. All members of the syndicate as well as syndicates shall sign a legal contract in respect of the above.

These conditions together with other project concept principles were tabled to the entire NERPO membership at its 18th Annual General Meeting held in Pretoria on 20th September 2015 for endorsement.

2.3 Project Deliverables

In terms of the project concept, the main project deliverables are to:

- Establish 200 syndicates by 2020;
- Formalising partnerships with selected feedlots and abattoirs by 2020;
- Implement Farmer capacity development as shown in figure 2;
- Link farmers to markets on a national basis;
- Monitor & evaluate the project success on a quarterly basis and once every year;
- Create 4150 permanent and short term jobs by 2020.

3. PILOT PROJECT

The project has already been piloted with 200 famers over a 2 year period (October 2015 – October 2017) and the results of the pilot are as follows:

3.1 Establishment of NERPO Livestock Syndicates

The pilot project commenced on the 1st of October 2015. During the 1st project quarter (1st October - 31st December 2015) much time was spent on appointing, orientating and training Field Facilitators.
The field facilitators were capacitated by means of an induction programme and a “train the trainer” course. The latter training was to enable the Field Facilitators to assist farmers in being trained & mentored. During this 1st project quarter the Field Facilitators were very busy mobilising and organising farmers in the five provinces (North West, Eastern Cape, Mpumalanga, Gauteng and Free State) to formally establish syndicates in local municipalities.

A baseline vetting survey was utilised by the field facilitators to verify that the farmers who have joined have the minimum required number of 50 breeding cows. The land tenure, land size and tagging of animals were also verified by means of the vetting survey. Farmers submitted documentation such as lease agreements, title deeds and letters of authority from their Chiefs / Tribal Authorities as evidence of access to land.

A total number of 200 farmers were captured with a total number of 22,111 cattle and a total number of 15,336 breeding cows. The Livestock and Database Management Information System (LDMIS) software was developed in order to manage the information of the farmers. A total number of 1,710 animals were tagged with special NERPO tags.

A verification campaign was launched during 3rd project quarter (1st April - 30th June 2016) to confirm that all syndicate information recorded on the data-base is correct and accurate. Thirty percent of the syndicate members were drawn from the communal farming system, in order to test the viability of the system and how to address the general livestock management and profitability in this type of farming, as the majority of the small-holder farmers are farming under this system.

As the first step towards formalizing the syndicates into legal entities that could be able to legally participate in the entire meat value chain, each syndicate was asked to elect its executive committee, consisting of Chairperson, Secretary and Treasurer.

The facilitators continued in this period to further mobilise qualifying cattle farmers and to collect outstanding data from farmers that were not captured on the database. By the end of the 3rd Project Quarter 200 farmers signed to participate as syndicate members as per the condition of the project (see table 1 below).
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<td>Mpumalanga</td>
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<tr>
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<td>18</td>
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<td><strong>200</strong></td>
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3.2 Farmer Capacity Development

3.2.1 Field facilitator development

Below the Field Facilitators received technical training course in Primary Animal Health Care and early detection of diseases from ARC and AFRIVET in January 2016. This training equipped them with technical aspects in order to assist farmers.

THEORY TRAINING


3.2.2 Training needs of livestock farmers

Farmers' training & mentoring needs were identified by means of the vetting-profiling of farmers. An analysis of these needs showed that the farmers needed competency in four main areas, namely: Animal Breeding, Animal Nutrition, Animal Health and General Farm Business Management. Specific needs that were identified were the keeping of effective farm records on the treatment of animals, animal movement, and asset inventory. Further development needs were knowledge and implementation of breeding systems as well as grazing systems. The need for farm financial management and the implementation of basic conditions of employment was also revealed.

3.2.3 Development of farmer training material

Four (4) study guides covering the above subject matter were developed to suit farmer training needs as indicated by the farmer vetting-profile. The training needs of the farmers were continuously evaluated throughout the training and mentoring intervention and therefore the farmer training guides are continuously updated throughout the project period.

3.2.4 Farmer training & mentorship

The farmer training commenced with a training meeting scheduled between the facilitators and their syndicate groups. During this meeting the farmers were informed of the training approach and the reason for submitting a portfolio of evidence. Farmers also received the first practical worksheets (Livestock Data Collection, Beef Management Calendar, Body condition score sheet & Cash-flow template) which they had to utilise and implement on their farms.
These practical worksheets were to be submitted during the following quarter as part of the farmer’s Portfolio of Evidence (PoE) that is assessed and moderated for competency towards the completion of each module. Farmers only receive competency certificates after all four NERPO training modules have been completed and farmers deemed competent towards the end of the project period. NERPO identified mentors in different provinces against certain criteria to make a follow-up and mentor the farmers against the training modules and practical farm observation of each farmer.

By the 3rd quarter, farmers were trained on Animal Breeding and General Farm Business Management which formed part of Modules 1&4. The training was in the form of 25% theory lessons and 75% practical exercises based on the theory lessons. Farmers received their files with updated learning material. The syndicate members submitted their practical templates for assessment.

November 2016 was dedicated to systematically observe and monitor the quality of training and mentoring of farmers on the ground. Assessors attended the scheduled farmer’s days in the five provinces. Bull Selection was the final topic addressed from Module 1 (Animal Breeding for Profitable Production).

A competency report completed in January 2017 on module 1 (Animal Breeding for Profitable Production) indicated that a total number of 146 out of 200 farmers that were assessed, were deemed competent. The remaining 54 farmers were given their second and third opportunities to improve on certain skills.

3.2.5 Fodder Banks

The drought of 2015/16 caught most farmers pants down. It was worse to small-holder farmers who don’t have fodder banks. Some members of the syndicate lost a significant number of livestock during this drought period. In order to serve the cattle nutrient needs the establishment of these fodder banks cannot be done hastily and haphazardly. NERPO therefore had to firstly call a meeting with the field facilitators and syndicate members to acquire their inputs on how these fodder banks should be established within this NERPO Livestock Syndicate Scheme. A strategic meeting on the establishment of fodder banks was held with the farmers in February 2016.

The farmers accepted a three (3) point plan option for the establishment of fodder banks, namely:

1. Identify farmers with arable land under irrigation and who are willing to plant fodder at their farms.
2. Such farmers be contracted through a formal contract agreement to plant fodder, store it and sell to members of the syndicate at a predetermined discounted price when the need arise.

3. For the 2016 winter period, because it was too late to plant fodder, farmers requested assistance with licks that will supply both protein & energy during winter season.

A total of 238 tons of winter-licks were ordered from RCL Foods. The lick was distributed to farmers in the month of July 2016. An application form and supplier agreement to become a fodder supplier was drawn up. Several farmers who were strategically placed in the five provinces and whose farms had the capability of growing adequate fodder were identified. A successful fodder supplier application and contract was drafted and signed by the successful fodder supplier bidders as part of farmer capacity development.

A total of 272 tons of ruminant feed (winter-licks) were distributed during the month of August to all syndicate members at different distribution points. In the EC farmers collected the licks from Mount Frere and Carnarvon Estate. The North West Winter-licks were delivered at Mr Naphtaly's farm in Mahikeng. The distribution center for Mpumalanga & Gauteng was in Pretoria. A total of 700 kg of Brazseed was purchased from Brazseed to plant 40ha under irrigation & 50ha under dry land.

### 3.2.6 Livestock improvement

NERPO invited ARC to be a project strategic partner, specifically in the area of livestock improvement and through the ARC Kaonafatso ya Dikgomo (KYD) project.

The NERPO Field Facilitators and ARC technicians were expected to collect animal performance data from members of the syndicate on a regular basis for analysis and record keeping.

### 3.2.7 Access to finance to increase breeding stock of farmers

In terms of farmer capacity development and according to the original approved plan, NERPO proposed to provide loans through NERPO Financial Services (NFS) to the members of the syndicates in order to increase their stock to a minimum of 100 breeding cows within the first year of the project cycle.

The process of availing loan finance to farmers who don't have a minimum of 100 breeding cows was delayed due to the verification process which took longer than expected and which was completed at the end of June 2016. In addition to the delay, NFS reported that Landbank, the main funder of NFS, was also doing farmer assessments on the ground which was finalised in November 2016. In the meantime, NERPO was also monitoring the impact of drought as it would be irresponsible to give farmers loans to buy breeding stock under the drought situation.
After an analysis of farmers qualifying for loans was completed, out of a total of 200 farmers, 38 farmers were not in need of loans as they had already achieved the minimum of 100 breeding cows and the credit records of 24 farmers were in a serious doubt, hence could not be given loans. The remaining farmers were invited to apply through the loan application process of NERPO Financial Services.

At the end, NERPO Financial Services (NFS) was not in a position to assist the farmers with loans to buy additional livestock, due to poor repayment record of emerging farmers in general, and hence no funders were prepared or willing to be involved in providing loans to these farmers, especially with the terms and condition of the proposed loan finance by NERPO (3-year holiday period and a 4% interest rate).

As a new remedial strategy, NERPO decided to approach the Provincial Departments of Agriculture to provide additional breeding cows to syndicate members through their Livestock Improvement Programs. In principle, Eastern Cape, Free State & North West Provinces agreed to work with NERPO on this syndicate scheme.

If the provinces would agree to support the farmers with breeding stock, this would be a much better proposal and solution than the loans, as the farmers would have no financial burden of loan repayments. Also, the farmers would reach the target of a sustainable breeding capacity sooner, as well as a positive cash-flow far earlier than anticipated.

3.2.8 Linking farmers to markets

The model “linking farmers to the meat value chain” integrates the rest of the beef value chain by ensuring that farmers have agreements to supply a minimum number of livestock as a syndicate through an agreed upon channel. As the farmers continuously supply that channel, they build up towards owning equity in the feedlot and abattoir that they supply, which they can secure once they are registered as a formal business entity.

NERPO registered a private company called “NERPO Livestock & Meat Marketing Agency” that would assist farmers with this process as well as an online Livestock Auction website that will serve as an additional platform for farmers to sell and buyers to buy cattle from members of the syndicate. Whilst NERPO was busy with all these plans, farmers were encouraged to continue selling in their normal markets but provide market information in order to build a baseline information.
By 30th September 2016 a total number of 5035 animals were sold between the 200 farmers at an average of 25 animals per farmer. As part of the revised plan ‘backgrounding farms’ are being identified. These backgrounding farms will serve as feeding-farms to those animals not yet ready for sale.

4. PROJECT CHALLENGES

- During the farm enterprise profiling, it was observed that most of the farmers do not keep records, hence the baseline information has been seriously affected in terms of completeness. It has also been a struggle to get small-holder farmers with a minimum of 600 hectares as it was a requirement to participate in the project, and reveals the poor success of Land Reform in South Africa.
- During the verification process, several challenges were experienced such as the difficulty in calculating the size of the grazing land and caring capacity within the communal farming context although the farmers had provided proof of the land having been allocated to them by the respective chiefs.
- Most farmers are farming with long expired lease agreements or short term lease agreement (3-5 years).
- The 2015/16 drought had a serious negative effect on the project, especially with high levels of livestock mortality due to poor or no grazing at all; low conception rate and calving percentage.
- Linking the farmers with the value chain was also a big challenge as small-hilder farmers have no resources to take equity in the established feedlots and abattoirs.
- The majority of emerging farmers have not registered their farm workers with the Department of Labour and have no employment contracts for the workers.
- Lack of participation and support from the provincial and national departments of agriculture and rural development due to silo and uncoordinated development approach of government.

5. LESSONS LEARNT FROM THE PILOT PROJECT

- Most farmers are not farming on commercial basis though they own livestock farms, due to lack of knowledge, farming skills and resources.
- Most farmers employ relatives who are regarded as family labour without any formal employment contracts.
- Farmers themselves need a lot of training in financial management (Cash-flow Statements, Income & Expenditure Statements) and record keeping.
- During the initial stages of the project farmers did not see the importance of syndicate collaboration. However, after a year farmers realized the importance of collaborating with each other and sharing information, knowledge and equipment.
• After having received training for a year farmers realized the importance of record keeping by comparing the previous year’s production and financial records with the current information.
• Sales records indicate that weaner calves fetch better prices for the sellers per kilogram than old animals (C-grades).
• The Livestock Enterprise is long-term investment which requires special funding model for small-holder farmers.
• The implementation of a project is much more complex and much more difficult than the concept on paper.

6. CLOSING REMARKS FROM THE PROJECT MANAGER & GROUP ACCOUNTANT

Elizabeth Möller:
Project Manager

During my initial contact with NERPO farmers at the first AGM I was struck by their eagerness to acquire information, to learn from others and to source tools regarding possible support they could generate. Their enthusiasm to develop their livestock and ‘dream’ to link their ventures to the formal market was always evident.

Manish Nicha:
Group accountant

From a financial point of view and my interaction with the small-holder farmers over the past 8 years at NERPO and with my involvement with NERPO Livestock Syndicate Scheme, I have learnt that in order to run a successful farming enterprise a farmer would need more than just his/her passion for farming. Besides a farmer’s passion for farming a farmer will require
However, it was not until my involvement with the NERPO Livestock Syndicate Scheme, that I came to appreciate and understand the key role NERPO would have to play in the development of small-holder farmers. During my visits to various farms I was struck by the dedication and love the farmers had for their cattle and their commitment to build quality herds – most evident and astonishing was the fond manner in which the cattle were handled!

The most profound moment occurred when I realised that the success of the individual farmers, and NERPO as a development facilitator, is based on a warm relationship between the producers, industry, government and private sector. The most successful farmers had nurtured their herds with the necessary wisdom and patience realising that time, effort and dedication would yield the results. These farmers therefore ‘lived’ a unique determination and set of farming values, no matter what difficulties the circumstances may hold.

The ‘farming values’ such as sincerity, patience, passion and dignity clearly evolved as the most valued project lessons learnt. Ultimately the project visits to the farms not only generated the realisation but created the criteria for success - both for NERPO and myself.

When developing a livestock farmers budget to work out what the breakeven point would be and how many breeding animals a farmer would need to achieve breakeven we came across few challenges that the farmer would experience in achieving this target. The first challenge was that the majority of small-holder farmers only had a herd of 40 to 50 animals and this was less than half the amount required to achieve the breakeven target which we calculated to be 100 breeding cows. To achieve this target, the farmer would have to purchase the additional animals by making use of a loan. The second challenge was that the farmer could not pay back the capital of the loan in the first 3 years as we would need the working capital during this period to operate the farm. The other challenge that the farmer would encounter was the technical knowledge and skills to run a farming business.

Based on the above I believe the scheme that was developed by NERPO addresses all the immediate needs a farmer would require to achieve commercialisation.
7. **PROJECT ROLLOUT**

Since January 2017 the project has been opened to all emerging livestock farmers without any restrictions except adhering to project principles. Except Western Cape which has few emerging livestock farmers, KZN and Limpopo will be added in the rollout of the project. In summary, the project rollout will focus on Production Development, Market Access, Access to Farm Inputs, Access to technology, Legislation & Policy framework and Access to Finance as shown in the diagram below.

Diagram 1:
ENTERPRETATION OF THE SKETCH DIAGRAM

1. NERPO - will play a facilitation & co-ordination role;
2. SYNDICATES - farmers will be grouped into syndicates and will procure inputs and sell their stock collectively as Syndicates for better buying and selling power;
3. RED MEAT INDUSTRY - will provide both financial and technical support in some elements of production development and market access;
4. PRIVATE SECTOR - will provide input supplies, extension, technology & financial support
5. GOVERNMENT & ITS PARASTATALS - in conjunction with NERPO will play a major development role in:
   - Production development
   - Market access
   - Access to technology
   - Access to development finance
   - Legislation & policy framework
   - Programme & project funding

8. FUNDING REQUIREMENTS FROM THE RED MEAT INDUSTRY (LEY & FEDERATION)

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9. THE KEY SUCCESS FACTORS & FUTURE OF THE PROJECT

- NERPO Livestock Syndicate Scheme remains a very significant project for the establishment of black commercial farmers in South Africa
- More project partners are required in the form of Quadruple-P, standing for Producers-Public-Private-Partnership to assist with several resource needs of the project. The project will also be integrated to Operation Phakisa and other related industry initiatives.
- Holistic approach in farmer development is the critical success factor of this project.
- The success of the project lies on the regular monitoring and frequent evaluation of each participating farmer.
- In 2018, all participating farmers in the scheme will have to be certified by ARC, State Veterinarians and the Industry as these farmers will be participating in the export market which has got strict animal disease control and traceability measures.

10. PROJECT TEAM

10.1 Project Development & Management Team

Mr. Aggrey Mahanjana : NERPO Group Managing Director
Dr. Langelihle Simela : Project Advisor
Ms. Angel Nyathela : CEO - NERPO Financial Services
Mr. Manish Nicha : NERPO Group Accountant

10.2 Project Implementing Team

Mathekgana Briner : National Project Administrator
Mbane Mhlobo : Field Facilitator - EC
Mgidi Simbongile : Field Facilitator - EC
Nxele Sibusiso : Field Facilitator - EC
Mashao Mojalefa : Field Facilitator - FS
Motloung Tumelo : Field Facilitator - GP
Matukane Aubrey : Field Facilitator - MP
Maruping Bongani : Field Facilitator - NW
Sefularo Johnny : Field Facilitator - NW
Sehoro Rebaone : Field Facilitator - NW
Tshuputse Kingsley : Field Facilitator - NW